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RUEHKO/AMEMBASSY TOKYO 9229  
RUEHWL/AMEMBASSY WELLINGTON 1907  
RUEHCHI/AMCONSUL CHIANG MAI 0324  
RUEHHM/AMCONSUL HO CHI MINH CITY 0152  
RUEATRS/DEPT OF TREASURY WASHDC  
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UNCLAS SECTION 01 OF 03 TAIPEI 002461

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STATE PASS USTR, STATE FOR EAP/TC, USTR FOR STRATFORD AND  
ALTBACH, TREASURY FOR OASIA/TTYANG, COMMERCE FOR  
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SUBJECT: HSIEH OUTLINES A PRAGMATIC ECONOMIC POLICY

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¶1. (SBU) SUMMARY. During a November 8 presentation to the American Chamber of Commerce in Taipei, DPP presidential candidate Frank Hsieh (Chang-ting) balanced an emphasis on Taiwan's underlying "sovereignty" with an espousal of greater economic openness. He called for strengthening the manufacturing sector, liberalizing tax policy and capital markets to increase Taiwan's international competitiveness, and boosting tourism. On cross-Straits economic policy, Hsieh advocated establishing regular charter flights and easing investment restrictions, including allowing Chinese investment in Taiwan. In response to a question, Hsieh hailed Taiwan's close economic relationship with its American "best friend," and called for a regular high-level policy dialogue with the U.S. and a bilateral free trade agreement. END SUMMARY.

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Support for the manufacturing sector  
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¶2. (SBU) Opening his remarks by speaking in slightly halting English, Hsieh stressed the DPP's "focus on national security", said "nothing is more important than protecting the sovereignty of Taiwan's status quo," and identified "national identity" issues as "extremely important." Shifting to Mandarin, he described his economic platform as a "golden triangle" combining economic prosperity, sustainable development, and social justice, and said his remarks would focus on the first of the three. In Hsieh's view, Taiwan's economic policy should not focus solely on GDP growth at the expense of developing key industries, and he identified biotechnology and biomedical services as among the new sectors on which Taiwan should focus. Taiwan industry, he explained, should use enhanced IPR protection and advanced technology to move beyond original equipment manufacturing (OEM) and expand its presence in high value-added industries.

¶3. (SBU) Asserting that Taiwan's manufacturing sector has been declining too rapidly, Hsieh argued that although manufacturing now accounts for only about 23% of Taiwan's GDP, the sector plays a disproportionately more important role in employment. The authorities, he said, should create

an environment in which technology, capital, and labor can help support the manufacturing sector. According to Hsieh, manufacturing sector job loss has helped make Taiwan an "M-shaped" society of increasing social disparity and a weakening middle class. Worsening social equality, he continued, can be blamed on the policy inadequacies of both the KMT and the DPP over the past twenty years.

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Financial, tourism, and development policies  
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¶4. (SBU) Hsieh supported shifting tax policy from a focus on "fairness" to an emphasis on "competitiveness," and should look to Hong Kong, Singapore, and South Korea as models. Specifically, he advocated resolving double taxation problems, reducing inheritance and gift taxes, and attracting capital back to Taiwan by pardoning previous infractions involving overseas investments not legally registered with the authorities. An 18-24 month amnesty period should apply to all who have not fully reported their overseas investments, explained Hsieh, and not only those who have invested in China. Hsieh underscored the importance of strengthening Taiwan's capital markets, which he described as "very weak," despite the relatively good performance of the stock market. Taiwan should attract a greater number of IPOs, he added, and allow the stock market to increase its links with global counterparts. Hsieh bemoaned the fact that, despite massive foreign exchange reserves, Taiwan runs a capital account deficit.

¶5. (SBU) Calling for expansion of the Taiwan tourism sector, Hsieh said he would support allowing up to 1,000 Chinese tourists a day to visit Taiwan for stays of up to ten days. As part of a comprehensive policy to stimulate domestic demand, Hsieh advocated improving public infrastructure. Such efforts should not, however, necessarily focus on the

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highways, industrial plants, and other large public projects of the past, but should instead concentrate on more environment-friendly areas such as flood control and care for children and the elderly. Hsieh also mentioned the importance of reducing the urban/rural development gap.

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Cross-Strait economic integration  
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¶6. (SBU) Returning to English as he began his remarks on cross-Strait economic policy, Hsieh said he would adopt a "more open attitude," but also observed that "protecting the sovereignty of Taiwan's status is more important than many things," and said cross-Strait economic integration must not proceed to the point that "Taiwan becomes a local government of the PRC." Instead, he stated, Taiwan should "combine openness with individuality." Hsieh said he supported direct cross-Strait flights, but added that such flights should begin as charter flights during holidays, and then gradually expand in frequency. "Charter" status will help avoid bitter disputes over whether the flights are "domestic" or "international", he added, before observing that "both sides are too preoccupied with ideology and need to be more practical" on the issue.

¶7. (SBU) Hsieh said he would "welcome foreign capital to Taiwan," including investment from China. Investment must be "based on the principle of mutual benefit," and if Taiwan businesses and investors can go to China, then a similar flow should be possible in the other direction. Taiwan's strong "rule of law" would help address concerns about Chinese investors buying up the island, he added. In Hsieh's view, Taiwan should relax the current 40 percent-of-net worth limit on companies' investment in China, but must also retain "active management" and review investments on a case-by-case basis, rather than allow what he characterized as the KMT's proposed "wide open" policy. In national defense, agriculture, and other sensitive sectors, technology transfer

to China must be carefully regulated. Industry representatives should take part in the transfer evaluation process, said Hsieh.

18. (SBU) During a brief question and answer session after his remarks, Hsieh responded to a query about Taiwan's lack of bipartisanship by saying that, if elected, he would like to form a coalition government. He predicted that neither the DPP nor the KMT would be able to win an outright majority in the LY. Answering a question about apparent discrepancies between Hsieh's relatively liberal cross-Strait economic policy and Chen Shui-bian's more conservative views, Hsieh promised that if elected he would move ahead on cross-Strait economic integration, despite expected political pressures. In response to another question, Hsieh expressed general support for the concept of a bureaucratic "one stop shop" for Taiwan-based investors doing business on the mainland. In reply to a query on how Taiwan can maintain a vibrant manufacturing sector in the face of low-cost regional competition, Hsieh acknowledged the long-term trends that favor moving manufacturing to cheaper locations offshore, but argued that Taiwan's manufacturing sector has eroded too quickly, and must adapt by increasing value-added.

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Relations with the U.S.  
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19. (SBU) Replying to a final question on the U.S.-Taiwan economic relationship, Hsieh noted that the U.S. remains a leading export market for Taiwan, especially because many Taiwan-owned factories in China rely on American demand. The U.S. and Taiwan enjoy a "very close" economic relationship, he continued, and the U.S. is Taiwan's "best friend." Hsieh called for establishing a regular series of high-level U.S.-Taiwan exchanges to exchange ideas and ensure openness in economic and other policy areas, and also expressed support for a bilateral free trade agreement (FTA).

110. (SBU) COMMENT. Hsieh's speech was clearly designed to

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appeal to the local as well as foreign business sector. Relaxed and confident, he appeared to be aware that the largely business-oriented audience was most interested in hearing about cross-Strait and other economic liberalization issues, and tailored his remarks accordingly. In elaborating on his own cross-Strait policy views, Hsieh also sought to distinguish his positions from those of the current administration. He came across as pragmatic, engaged, and comfortable with his economics brief. END COMMENT.

YOUNG